

# TAXATION IN EARLY REPUBLICAN PERU, 1821-1851: Policy Making Between Reform and Tradition

Nils Jacobsen

El estado no es rico porque tenga mas o menos rentas; eslo sí por la sagaz economía de manejarlas. De manera que las salidas del haber no sobrepujen a las entradas (*Memoria de Hacienda, Perú* 1822).

No somos ricos, ni como podemos serlo en esta inmensa soledad? Como podemos serlo en un país sin caminos, con escasas comunicaciones, sin comercio interno, y de consiguiente sin agricultura, sin movilidad que la promueva, y estando la poca con que se cuenta paralizada por reglamentos destructores, restos de nuestra antigua servidumbre (Anonymus [Santiago Távora y Andrade] 1831)?

## I. INTRODUCTION

“La falta absoluta de orden y de economía, acaso la mala versación y también la impericia de algunos funcionarios habían reducido el erario a una completa nulidad. No solo se hallaba exhausto de fondos y recursos, sino que hasta había perdido enteramente su crédito” (*Memoria de Hacienda, Perú* 1829b: 5). With these words Peru’s Minister of Finance Lorenzo Bazo characterized in 1829 the fiscal administration of the preceding government. It is an indictment which was repeated again and again by nearly all contemporary observers of the young republic’s finances during the first three decades of Independence and is echoed by the scarce handful of modern scholars who have shown any interest in the subject.<sup>1</sup> In this *communis opinio*, then, the public finances of Peru between 1821 and the late 1840s were characterized by penury, disorganization and corruption, and such a state of affairs was to be blamed overwhelmingly on the chaos of the Wars of Independence and the subsequent military caudillo politics.

It would be difficult to reject this gloomy picture completely. Nevertheless, I shall attempt to show in this paper that in some regards Peru’s

1 See, for example, Basadre (1968-70, II: 137); Rivera Serna (1959: 410-411); McQueen (1926: 3-4); for an exemplary analysis of shifts in government revenue and spending of Latin American state during the early republican period see Halperin Donghi (1982).

post-independence public finances performed better than assumed and that the causes for particular fiscal problems which without doubt persisted even throughout the era of the guano bonanza, were more complex than mere administrative inability and political disorder. We shall argue, that revenue collection recovered relatively fast after the end of the Wars of Independence and that some elements of a reasonable taxation policy were common to most governments of that period. On the other hand, the major fiscal problems arose out of an uncontrolled process of public expenditures. I will try to demonstrate that the overall fiscal structure of post-independence Peru was shaped as much by financial traditions from the late colonial period, the economic conditions of the young nation, and conscious fiscal policies, as it was by the interminable political struggles between contending caudillos and their retinue.

## II. THE SIZE OF GROSS REVENUE

When Hipólito Unanue became Peru's first republican Minister of Finance under San Martín's Protectorate in August 1821, he did not inherit a flourishing treasury. Annual revenue had been growing during the 1780s and early 1790s by about 20 to 30 percent. But from the late 1790s to 1812 income stagnated at a level of between 4,600,000 and 5,200,000 pesos. The following years brought a dramatic slide in revenue collection to about 2,600,000 pesos (net) in 1814, the consequence of war, disruption of shipping and tax reforms of the Cortes at Cádiz. Viceroys Abascal and Pezuela struggled to stem the tide through a massive emergency tax program in 1815 and loans from the Consulado, other *ramos ajenos*, as well as the general population. During the following years more revenues were collected again — about 3,500,000 pesos in 1817 —, but the viceregal treasury never recovered the relatively high level of the first decade of the nineteenth century. Thus in the years since 1812 the colonial Peruvian financial situation had been catastrophic. But even before, since the renewal of war against England in 1796, Peruvian finances were precariously weak with deficits accruing whenever the wars disrupted shipping and mercury supplies and demands for funds from Madrid became stronger (Anna 1979: 16, 109-124; Fisher 1970: 119-123).

During the first four years of its existence the Peruvian republican government administered a war economy with exceedingly tenuous control over the minor part of the national territory. This was reflected both in the quantity and in the composition of the collected revenues. Between

August 1821 and August 1822 Unanue managed to scrape together some 1,300,000 pesos in regular income and about as much again through loans, sequestrations and the issue of paper money.<sup>2</sup> Although we do not possess any global data for the remaining war years, things did not get much better until Ayacucho, while the mining areas continued under control of the royalists, and San Martín's early decrees abolishing *tributo* and the extraordinary taxes levied since 1812 remained in force.

In spite of continuing complaints by government officials about the lack of funds, recovery after the end of the Wars of Independence and the enactment of a program of direct taxation during Bolívar's administration, was surprisingly swift. José de Morales y Ugalde, Finance Minister under President La Mar, reported total revenues of about 5,858,000 pesos for 1826, more than was ever taken in by the viceregal treasury. For 1827 he estimated revenues of about 5,200,000 pesos (*Memoria de Hacienda, Perú* 1827: 47-51).

The scanty data available for the quarter century after Ayacucho allow the tentative affirmation that total government revenue continued to hover around values between 4,500,000 and just over 6,000,000 pesos. In other words, revenue stayed essentially stationary with short-term fluctuations of an amplitude of approximately 25 percent. Only during the last six years under consideration here, the years of Ramón Castilla's first presidency between 1846 and 1851, which also witnessed a marked intensification in the political debate of public finances, did government revenue increase modestly to levels persistently above 6,000,000 pesos. But these increases were dwarfed when compared to the deluge of advances on guano consignments, which lead to national revenues of about 20,000,000 pesos only ten years later. In other words, nominally the annual revenues of the Peruvian republic continued after the end of the Independence Wars as high or, for some years, even slightly higher than those of the viceroyalty during those years when the Bourbon reforms brought about the highest fiscal returns at least since the halcyon days of the early seventeenth century. At a first glance, then it would seem wrong, from the point of view of revenue collection, to speak of a critical fiscal condition for Peru during the post-independence decades.

Several strong caveats have to be kept in mind in evaluating this some-

2 *Memoria de Hacienda, Perú* (1822: 11-13); for the first six months of 1822 total revenue of the *tesorería general* in Lima both from regular and extraordinary sources amounted to 1,658,117 pesos and 6 reales; see Dancuart and Rodríguez (1902-26, I: 235).

what surprising statement. They concern the reliability of the data, the rate of inflation and the size of Peru's population. The figures published in contemporary reports on Peru's public finances are extremely confusing, since under the same heading sums of greatly differing meaning are listed. Thus a figure purporting to represent gross revenue may refer to the total amount due (rather than collected); it may only represent the receipts in Lima's *tesorería general* (excluding all funds spent directly in the departmental treasuries); it may only be net revenue (total revenue minus the costs of collection); or it may exclude back taxes collected during the current year. Wherever possible, I have attempted to base my analysis only on gross revenue actually collected, including back taxes and all departmental receipts, without deducting the cost of collection (mostly the salaries of Ministry of Finance employees). Much of the varying figures on fiscal returns found in the literature can be attributed to this problem.

To my knowledge there exists as yet no long-term price index for Peru covering the first half of the nineteenth century. Marcel Haitin has recently shown that the price of seven agricultural commodities in Lima rose at a mean annual rate of 0.23 percent between 1799 and 1819. The war years between 1820 and 1823 showed stronger price increases of up to 11 percent per annum, but in the following years prices declined again to the level of 1819 (Haitin 1985: 190-198). For the twenty-five years following the Wars of Independence circumstantial evidence would suggest relative price stability, punctured only during the period of import prohibitions for major food and non-food commodities produced in Peru (most importantly wheat, flour and cheap cottons) between 1828 and 1833 and again since the late 1840s, a period which saw the gradual beginning of the major price rises during the 1850s and 1860s, caused both by the guano boom and price increases for Peru's agricultural exports in Europe (Macera 1974: CXXVI-CXXVIII; Gootenberg 1982: 348). Let us assume, for the sake of argument, price rises of between 20 and 30 percent for the period between the second decade of the nineteenth century and 1850. This would signify gross revenue of at least 4.2 million pesos annually during the late 1840s in constant terms of about 1810, about 19 percent less than the peak of late colonial revenue collection in 1812, but only 5 to 10 percent below average annual revenues during the period of highest collection between the late 1780s and 1812.

A somewhat different picture emerges, if one takes into consideration the population base, upon which the collection of revenue rested. With a population increase of about 730,000 persons between the mid-1790s and

1850, the per capita collection of gross revenues during this period declined from 28.9 reales to 23.3 reales.<sup>3</sup> This turns out to represent a decline of just under 20 percent nominally, but on the order of magnitude of 43 percent in real terms (assuming a 30 percent inflation rate for the period between the early 1800s and 1850). In other words, while the Peruvian national government each year collected only slightly less *gross* revenues between 1825 and 1850 in real terms than the viceregal government had done during the years in which the Bourbon reforms showed most effectiveness, it collected considerably less taxes, duties, fees and other types of charges from every man, woman and child under its jurisdiction, than its colonial predecessor had done.

Three principal reasons might be adduced to explain this incapacity of the national government to increase its revenues proportionally to the rise of population: 1. Declining administrative capacity to collect revenues due to continued political disruptions. 2. A weak economic base, which saw no overall growth commensurate with population growth, or: 3. A conscious policy of lower taxation as a means to stimulate the economy. Which of these factors carried most weight can only be determined through looking at the major sources of revenue individually and at fiscal policy. I shall argue that insufficient administrative capacity to organize collection was a constant, carried over from the colonial period to the early decades after independence. Thus the major explanation for the stagnation of revenues must be sought in Peru's economic condition between 1825 and 1850. Various governments realized that it was well-nigh impossible to increase taxation without impeding capital formation and a gradual recovery of production in key sectors of the economy, as well as provoking a socially explosive impoverishment of large sectors of the population. The last ten years of the colonial regime had precisely brought about this kind of overtaxation through extraordinary loans which resulted in a dramatic rise of the internal debt of the viceregal treasury from about eight million pesos in 1812 to about twenty million pesos in 1819 (Anna 1979: 16). To this tune Peru's civil and ecclesiastic corpora-

3 This calculation is based on the following figures: Anna (1979: 16) gives mean revenue of the Viceroyalty at 4.6 million pesos annually during the 1790s. In 1795 the population of Peru was 1,271,297, including the Intendency of Puno, see Fisher (1970: 251-253) and Kubler (1952: 33); in 1850 Peru's population stood at 2,001,203, see Kubler (1952: 34); gross revenues of the Peruvian national government in 1850 were 5,828,040 pesos; see "Memoria del Ministro de Hacienda General D. Juan Torrico al Congreso de 1851," in Dancuart and Rodríguez (1902-26 V: 97).

tions and her wealthy merchant families had been decapitalized, a development which during the final phase of the Wars of Independence reached the extreme of stripping the churches of their gold and silver and organizing the collection of the jewelry of Lima's wealthy women. Thus during the following decades any attempts to increase revenue collection engendered the danger of diminishing the working capital of miners and merchants — or of impeding its accumulation — and of cutting into the livelihood of the popular classes.

### III. THE MAJOR REVENUE SOURCES

While collection from most major sources of income tended to fluctuate sharply during the late colonial period, it is nevertheless possible to state that taxes and fees levied on mining and minting of precious metals and the sale of mercury contributed the largest share of the viceroyalty's revenue. Funds from the *ramos* of *quintos o diezmos reales*, *señoreaje o derecho de amonedación*, *azogue de Huancavelica* and *azogue de Europa* contributed between 15 and 25 percent of the net income of the viceregal treasury's *caja matriz* in Lima between the 1780s and 1820.<sup>4</sup> After independence income from these sources collapsed, as the production of precious metals declined and a large share of *plata piña* never found its way into the mints of Lima and Cuzco. During the 1820s the mining and assaying charges only produced an income of about 150,000 pesos annually and the small surpluses produced by the mints did not flow into the general treasury, but rather were reinvested in the reconstruction of the mints, badly damaged during the wars, and their equipment with new machines (*Memoria de Hacienda, Perú* 1827: 8, 13-15; Dancuart and Rodríguez 1902-26, II: 51). At least since 1828 miners and liberal politicians clamoured for a number of major concessions as prerequisites for a recovery of Peru's mining industry, recognized by all as the country's principal source of wealth. Most importantly, Mariano de Rivero y Ustáriz in 1828 demanded a considerable reduction of the colonial taxes *cobo y diezmos*, imposing "derechos excesivos" on each *marco* of silver and *quilate* of gold produced. Rivero justified his demand by suggesting that such a tax reduction

<sup>4</sup> See TePaske (1986); in 1799, for example, these four *ramos* contributed 1,311,559 pesos to the Viceroyalty's gross revenues of 4,833,507 pesos; for more details see TePaske and Klein (1982, I); see also Dancuart and Rodríguez (1902-26, I: 142-143).

would in effect increase revenue collection from this source, as it would stimulate production enormously. In 1828, the Minister of Finance rejected this proposal, but only one year later, in December 1829, Congress totally abolished *cobos y diezmos* and left in place a 5 percent charge on the *pastas* turned over to the mint as only tax on mining.

For several months, the Finance Minister did not apply this legislation, because as the liberal Santiago Távora put it sarcastically, "imbuido en las máximas de la administración antigua de tomar la plata para los gastos públicos donde primero se encontrara," he wanted "una entrada segura o una alcancía para cada batallón, que todos juntos daban la seguridad de orden y de paz."<sup>5</sup>

But since mid-1830, no more *cobos y diezmos* were collected and all future administrations stuck to the abolition of this major colonial tax. This in spite of revenue loss, which in 1831 Minister José María Pando estimated at close to 400,000 pesos annually (*Memoria de Hacienda, Perú* 1831: 18; Tantaleán Arbulú 1983: 52-53). Miners were showered with a number of other financial concessions during the late 1820s and early 1830s, which also reduced fiscal revenues, such as an exemption from the head tax, and the free importation of mining equipment and machinery (*Memoria de Hacienda, Perú* 1828: 15-16; Dancuart and Rodríguez 1902-26, II: 29-30). Between 1830 and 1850, the only significant income which the national treasury drew from mining originated from minting operations and an export charge on precious metals. In 1846, both amounted to 432,890 pesos, just over seven percent of gross revenues during that year.

The considerable reduction of state income from mining during the early decades after independence was not primarily a consequence of administrative incompetence. Rather it represented a conscious, albeit reluctantly introduced policy of stimulating the mining sector in order to aid it in overcoming the utter decay in which it had found itself during the 1820s.

The meteoric rise of customs revenue to becoming the mainstay of Peru's public finances until the late 1840s and again after the War of the Pacific represents a shift from taxing the most visible and concentrated sectors of production to taxing imports destined for consumption. This shift can only partially be explained by the performance of the various sectors of production and commerce after independence. While the

5 Távora y Andrade (1951: 73); "Proyecto presentado a la Junta Consultativa de Hacienda por el Director de Minería D. Mariano Eduardo de Rivero" in *Memoria de Hacienda, Perú* (1828: 29-39 and, for rejection of plan by minister, 15-19).

import trade underwent a shortlived boom during the mid-1820s, precisely when the mining sector reached its nadir, in the long run the level of imports remained tied to silver output, before guano created an alternative source of foreign exchange earnings to finance imports. Thus the shift towards relying to a large part on revenues collected from customs expresses the realignment of the social base of political power in independent Peru. It primarily benefitted rural producers, while increasing the tax burden for urban consumers of imported goods.

The last years of the colonial regime prepared the way for this major change in the composition of revenues. While before 1775 *almojarifazgos* had rarely contributed more than five percent of the net receipts of Lima's *caja matriz*, during the following decade the rapid expansion of overseas trade more than doubled customs collections both in absolute and in relative terms. In order to deal with the severe fiscal crisis during the early phases of the Wars of Independence, Viceroy Abascal in 1815 approved as part of his revenue raising package, an increase of *almojarifazgo* rates by one percent to four percent and stiff extraordinary import and export taxes on a number of key commodities, such as Chilean wheat, tallow, Peruvian soap, textiles, wines, cascarilla and sugar. Under the even more critical conditions of the last two years before San Martín's invasion of September 1820, a period when the Spanish navy had lost its control over shipping in the Pacific, Viceroy Pezuela reluctantly granted an increasing number of foreign merchant ships licenses to disembark their cargo in Callao harbor. This measure was taken against heavy opposition exclusively under fiscal considerations, "as the only method of saving the state", as Pezuela wrote to Spain. Cotton goods introduced on foreign ships paid 50 percent customs and other goods 36 percent. As a result, the viceregal *aduana* collected net revenues of 2,965,085 pesos during 1819 and 1820, amounting at least to a third of the viceregal government's gross annual income (TePaske 1986: Table 2; Anna 1979: 112-116, 140-145). The structure of the colony's public revenues was rapidly assuming the shape which was to prevail in independent Peru.

During the following decades, tariff policy evolved in the continuing struggle between short-term fiscal exigencies and the interests of different groups of merchants, hacendados, miners and artisans. Shifting coalitions between these interest groups and the government led to erratic short-term fluctuations of tariffs and customs regulation. It was by no means a foregone conclusion that all strata of merchants were in favor of lower tariffs, while artisans were the proponents of global protection (Gootenberg 1982: *passim*). The political weakness of the *consignatarios*



during the 1820s resulted both from the patriots' reaction to the strong support which the Consulado had granted to the royalist cause until 1820 and the glut of merchandise which the newly established foreign merchants introduced during the mid-twenties which threatened the livelihood of many Peruvian wholesalers and retailers (Gootenberg 1982: 333-335; *Memoria de Hacienda, Perú* 1822: 17, 28).

The highest pitch of the protectionist campaign was reached with the *ley de prohibiciones* of 1828, which completely forbade the importation of commodities produced in Peru, such as cheap cottons, wheat and flour, and wine.<sup>6</sup> This was obviously not a measure intended to increase customs revenues, and so it is not surprising that during the following years various administrations repeatedly circumvented the law by granting special licenses to import prohibited goods against substantial cash payments of customs and cited fiscal exigencies for doing so.<sup>7</sup> Contraband reached a peak during the years of the *ley de prohibiciones* and Minister of Finance Pando estimated that in 1831 600,000 pesos were escaping the treasury through the effects of the law (*Memoria de Hacienda, Perú* 1831: 22-23; Rivera Serna 1959: 439).

With their stocks of imports undergoing slow depletion, during the 1830s foreign *consignatarios* and Peruvian wholesalers began to form a coalition, clamouring for reduced tariffs. Since the last years of the first Gamarra administration, they were increasingly supported by the government — whatever its ideological stance —, because at least the termination of import prohibitions would improve the fiscal situation. Given that Peru would depend on the fiscal revenue from customs for many years to come, José María Pando suggested a middle path between complete free trade “and the system of restrictions and prohibitions which we have established.”<sup>8</sup>

Indeed the commercial codes of 1833, 1834 and 1837 brought a gradual liberalization of foreign commerce, although their application remained limited due to the frequent political disorders. The commercial code of

6 Távora y Andrade (1951: 79-80); Basadre (1968-70, II: 27-31 and 347); Anonymus [Santiago Távora y Andrade] (1831: 42-53).

7 Távora y Andrade (1951: 79-80); “Manifiesto del General La Fuente (1831)” in Odriozola (1863-77, X: 376-377); Bonilla (Ms. 1970, I: 148).

8 *Memoria de Hacienda, Perú* (1831: 23); *Memoria de Hacienda, Perú* (1832: 6-9); Gootenberg (1982: 335), places the emergence of the coalition between foreign *consignatarios* and national wholesale merchants only around 1840; for evidence of continuing conflicts of interests between foreign and national merchants during the mid-1830s, see Bonilla (Ms. 1970, I: 150).

1840, which essentially remained in force until 1852, consolidated the trend towards lower tariffs, with import duties between 3 1/2 and 32 percent for most goods, special rates for merchandise also produced nationally, and an abolition of export duties except for precious metals.<sup>9</sup> It would seem that the Ministers of Finance of the 1840s could live quite well with these reduced tariffs. In his *Memoria* for 1847, Castilla's Minister of Finance Manuel del Río expressed the connection which he perceived between the fiscal interests of the state and the liberalization of foreign trade: "...No ha perdido de vista el Gobierno que es preciso conciliar en el régimen de las aduanas la seguridad en el cobro de los intereses del erario con las facilidades que deben darse al comercio para su mas pronto expedición, y que de un modo indirecto producen utilidad al Estado removiéndolo los embarazos que ahuyentan al comercio, y haciendo por consiguiente mayor y mas activo el tráfico en nuestros puertos" (*Memoria de Hacienda, Perú* 1847: 10).

What were the effects of the rather significant changes of the government's tariff and foreign trade policy between the mid-1820s and 1850 on the level of custom's revenue? Table 1 presents figures both for customs revenue and British and French imports in Peru, taken as the best available measure for annual gross imports. If these figures even roughly approximate reality, they contain some surprising results.

In the first place, mean annual customs income did not fluctuate very strongly during the first quarter century of Independence (see Table 1). They reached a high level within a year after the defeat of the royalists and by the late 1840s they lay only 16 percent above this level. When imports were declining during the early 1830s, both a result of the glut left by the oversupply of the Peruvian market between 1825 and 1827 and the restrictive foreign trade regulations, customs revenues were still increasing somewhat between 1830 and 1833. To be sure, this may be partially explained through improvements in fiscal administration during the tenure of Pando and Pérez de Tudela.<sup>10</sup> But it also seems to prove all those wrong who feared a loss of revenue due to the *ley de prohibiciones*. The preemption of that law by granting special import licenses on such key commodities as wheat, flour and cotton goods, apparently produced a high level of cash customs revenue, which brought more income than the charges on these products under normal trade conditions, with all the

9 For general outlines of customs regulations and tariff policies between the 1820s and 1840s see Bonilla (Ms. 1970, I: 141-157, 186-190) and Dancuart and Rodríguez (1902-26, II: 53-61, III: 56-58, IV: 51-53, V: 52-53).

10 This point is stressed by Rivera Serna (1959: 422).

Table 1  
Peruvian Customs Revenue and Imports from France and Great Britain by Five Year Annual Means, 1825-1849 (Current Values)

Five Year Annual Means	Customs Revenue (in Pesos)			Imports From Great Britain and France	
	Callao <sup>1</sup>	All Aduanas <sup>1</sup>	Index	Value (in £)	Index
1825-29	[1,261,138] <sup>2</sup>	1,840,000 <sup>2</sup>	100	604,234	100
1830-34	1,421,117	[2,073,409]	112.7	474,509	78.5
1835-39	1,101,806	[1,607,534]	87.4	573,212	94.7
1840-44	1,365,787	[1,992,683]	108.3	777,600	128.7
1845-49	[1,458,430]	2,134,430	116.0	1,071,659	177.3

1 The values in brackets have been extrapolated from the ratio between revenues for Callao and all *aduanas* for those years for which both figures existed.

2 Only for one year, 1826.

Sources: Dancuart and Rodríguez (1902-26); Parliamentary Papers, House of Commons, London; Bonilla (Ms. 1970).

possibilities to postpone payment, to pay in paper money, or even to strike a deal with local customs employees. The slump of customs collection between 1835 and 1839 (it actually started one year earlier) can only be understood as a consequence of the civil wars between the factions of Orbegoso, Santa Cruz, Salaverry, and Gamarra.

During the 1840s, Peruvian customs revenue began to show a steady rise, which became more pronounced in the following decade. This rise was, however, much more modest than that evidenced by the country's imports. While customs revenues barely rose by a third between the late 1830s and the late 1840s, British and French imports increased by nearly 90 percent during the same period. This scissor-like development of imports and customs collection could only have been the effect either of administrative deterioration in the collection of customs, or of the liberalized trade policy. Since, if anything, fiscal administration became more effective in this decade, particularly during Castilla's first presidency, we must conclude that the adoption of the commercial code of 1840 and various other decrees simplifying and deregulating foreign trade, in fact showed the intended results: lower effective duties per unit of imports which flowed through the country's customs houses. In spite of widespread contraband, then, the protective trade policies during the late 1820s and early 1830s still showed a positive effect on the nation's customs revenues.

Until guano became a significant factor of Peruvian state finances customs income contributed between 32 and about 42 percent of the coun-

try's gross revenues.<sup>11</sup> It was easily the largest single source of state finances, not unlike the situation in many European countries during this period.<sup>12</sup>

Yet with another key revenue source of the colonial government, independent Peru relinquished it without concern for the fiscal consequences: I am referring to the *alcabala*, the sales tax levied at a rate of 6 percent since 1776 on nearly every commodity each time it changed hands.<sup>13</sup> With annual revenues of between 600,000 and 800,000 pesos, the *alcabala* had contributed 12 to 20 percent of Peru's colonial public finances since the late 1770s (TePaske 1986: Table 2; Anna 1979: 112; Fisher 1970: 107-109).

This source of revenue was largely abolished no later than 1826 by the commercial code of that year. A feeble attempt to reintroduce *alcabalas* in 1831, as an expedient of improving the critical situation of the treasury was defeated by liberals in Congress, such as Santiago Távora.<sup>14</sup> What persisted throughout the nineteenth century was the *alcabala de enajenaciones*, a charge on every sales transaction over real estate to be collected for the state by the notaries. This tax produced a revenue of between 65,000 and 101,000 pesos annually during the 1840s, with a noticeable upward trend. Probably it produced considerably less during the late 1820s and 1830s. In any case, since 1826, the *alcabala*, one of the four major pillars of the colonial treasury, was reduced to contributing between 1 and 2.5 percent of the independent nation's public finances, not by administrative inefficiency, but through a political decision.

11 Customs receipts as a percentage of Peru's gross national revenue: 1826: 31.4 percent; 1839: 37.3 percent; 1846: 38.7 percent; 1847: 40.1 percent; Macera (1974: LV) cites figures of about 46.9 percent for custom's share of Peruvian national revenue between 1845 and 1849, without indicating his sources.

12 In Great Britain, the £36,000,000 revenue from Customs and Excise constituted nearly two-thirds of total government revenue in 1827. Of this, at least half was collected in customs duties on foreign trade; see Clapham (1967: 320).

13 For details on colonial *alcabala* regulations see Dancuart and Rodríguez (1902-26, I: 34-39).

14 This major change of Peru's post-independence tax legislation has gone unnoticed by all modern observers, including Dancuart, Basadre and Bonilla. Because of the confusion reigning in this matter, I shall cite the relevant articles of the *Reglamento de Comercio*, promulgated on June 6, 1826:

"Sección Octava: Del Comercio por tierra

Art. 47.—Quedan abolidas de hoy en adelante las aduanas interiores, no debiendo subsistir sino las litorales y de fronteras que serán designadas por una ley especial.

Art. 48.—Se extingue asimismo el seis por ciento de aumento de derechos sobre las mercaderías internadas a las provincias, pudiendo en su virtud conducirse

How can we explain this apparently smooth and uncontroversial abolition of an important revenue source, a step which left very few traces in available contemporary publications?

It is quite obvious that the *alcabala* was a highly unpopular tax which caused great problems in collection. It hampered trade particularly in the sierra where it brought great disadvantages to the mostly illiterate *arrieros*. *Alcabala* could only be efficiently collected with a costly and heavy-handed apparatus of internal customs and a multitude of other officials controlling the *guías* of all merchandise being transported. The abuses of *alcabala* collection had played a considerable role in provoking the cycle of rebellions in the early 1780s, something that could not have been forgotten fifty years later (Anonymus [Santiago Távora y Andrade] 1831: 55-56; O'Phelan 1982).

The losses of revenues from indirect taxes such as the charges on mining and minting and the *alcabala*, inevitably brought forth an attempt to increase direct taxes. San Martín's step to abolish *tributo* in 1821, a necessary symbolic measure to signal the break with the colonial order to those victimized by it, had to be taken back only five years later, obviously for financial reasons. But this time, the Indian head tax was to be embedded within a *contribución general*, which, in accord with liberal precepts of equality, was to weigh equally on all social and ethnic groups of Peruvian society. As Finance Minister Morales y Ugalde explained in 1827, the head tax was made extensive to all social classes, in order to alleviate

libremente de un punto à otro, con guía de aduana de su procedencia, la que no se concederá sino á naturales y ciudadanos del Perú.

Art. 52.—No causan de alcabala las producciones naturales é industriales del Perú en los lugares de su procedencia, transporte ó consumo, con tal que se haga el comercio de ellas, con guías de la aduana, ó del intendente ó gobernador del lugar de su extracción, sin cuyo requisito sufren la pena del seis por ciento de derechos aplicables a los denunciantes."

See Dancuart and Rodríguez (1902-26, II: 85); these regulations were essentially confirmed by later codes, as e.g., Art. 61-65 of the *Código de Comercio* of 1840; see *ibid.*, III: 114-115; the idea of Dancuart and Basadre that *alcabalas* were retained in principle by the code of 1826, may have its origin in the ambiguous wording in the report to Congress by Minister of Finance Morales y Ugalde: "En el [the *Código de Comercio*] se supriman las aduanas internas, principio de multitudes de tropiezos; desaparece el *aumento de las alcabalas* y se esceptúan de derechos las mercancías extranjeras, que por cuenta de sus primeros especuladores, ó habiendo mudado de dominio, refluyen en lo interior de la república, con solo sufrir el primer derecho, del 30 por ciento [i.e. import duties] designado en uno de sus artículos" [my emphasis]; see *Memoria de Hacienda, Perú* (1827: 19-20); on the attempt to reestablish *alcabalas* in 1831 see Anonymus [Santiago Távora y Andrade] (1831: 55-56).

the burden on any particular social class and to obviate the need of reimposing an indirect tax on "artículos de primera necesidad y consumo" (*Memoria de Hacienda, Perú* 1827: 24-27). Here the replacement function of Bolívar's direct tax package for the reduction of indirect tax levies, especially a sales tax, is made explicit.

The direct taxes which were of any importance until the end of the nineteenth century were all established within a few years between 1825 and 1828. Besides the two parts of general capitation tax, the *contribuciones de indígenas* and *de castas*, these included levies on net income from real estate (*contribución de predios rústicos y urbanos*), and from commerce, trades and professions (*contribución de patentes* and *de industrias*). It is striking how most Finance Ministers of the period stressed that all established direct taxes were only drawing on the net product or income of any property or trade, and not on its principal or capital. These men were imbued with physiocratic concepts, even if these seemed difficult to apply in a society with large sectors for which the concept of net rent was either meaningless or extremely difficult to transform into an accurately measurable quantity.<sup>15</sup>

The *contribución de indígenas* (see Table 2) was not only by far the most lucrative of these taxes — it produced about three-fourths of total revenue from all direct taxes —, but also the one which underwent least administrative and legal confusion during the three decades following its reestablishment. This was a consequence of the politically much less controversial nature of the *contribución de indígenas* compared with the direct taxes levied on other social groups. But it also reflected the ease with which republican Peru could adapt the colonial machinery and procedures of collection for the Indian head tax: Collection followed the ordinances of 1784 with only minor changes of rates, which varied regionally in any case (Kubler 1952: 5-6).

For the few years after independence, for which we possess figures on the *contribución de indígenas* (in many years only a lump sum for *contribuciones directas* was published), its revenue lay between five and thirty percent above the mean income from this source during the 1790s. Collection increased somewhat during the 1840s over the first fifteen years after the tax's reintroduction, mainly because of Indian population growth.

15 For examples demonstrating that Finance Ministers were thinking in these terms see *Memoria de Hacienda, Perú* (1827: 24-27), and *Memoria de Hacienda, Perú* (1847: 4-5); for similar problems in the application of physiocratic taxation principles in Western Europe see Ardant (1975: 178-181).

Table 2  
Contribución de Indígenas (Gross and Per Capita Values), 1795-1850

Year	Gross Revenue	Indian Population	Per Capita Revenue
1795	986,702.5 pesos <sup>1</sup>	732,724	1.35 pesos
1826-27	1,039,402 pesos <sup>2</sup>	998,846	1.04 pesos
1850	1,237,795 pesos	1,185,865	1.04 pesos

1 Mean annual revenue collection, 1790-99.

2 According to *matriculas*; not necessarily collected.

Sources: Fisher (1970); Miller (1975); Kubler (1952); Dancuart and Rodríguez (1902-26)

Per head of Indian population, the republican government collected less in current pesos from this source than the colonial regime had done during the 1790s. The decline, however, was probably quite a bit smaller than the roughly 25 percent suggested by Table 2, since the population figure for the 1790s is likely to be too low, while the figures for the republican period are high. In part, this minimal drop in the per capita collection of *contribución de indígenas* may express the measure of decline of administrative effectiveness. But it also reflects the frequent practice of republican governments of exempting local communities and even whole provinces from paying *contribuciones de indígenas* for diverse reasons, such as droughts, falling income due to war, or political expedients (Rivera Serna 1959: 411-412). In terms of constant pesos, per capita collection of course declined significantly, say by 30 to 40 percent, between 1790s and 1850. But this was merely the consequence of maintaining, in terms of current pesos, the rates of the *contribución de indígenas* equal to those charged during the late colonial period.

This political decision, not to increase the rates of the *contribución de indígenas* proportionate to the rate of inflation already explains a large share of the decline of the Peruvian state's gross revenue to which we alluded above. There can be little doubt, then, that whatever its absolute burden on the Indian peasants' economy, the *contribución de indígenas* weighed relatively less on this social group during the early decades after independence than it had during the Bourbon reform era.

It was the imposition of the other direct taxes which constituted the early republic's major reform of the fiscal structure. Because they were politically controversial and posed great administrative problems, governments changed or even abolished the taxes in a confusing stream of laws and decrees, and their contribution to gross revenue remained modest beyond the period under consideration here.

But European countries had found it no less difficult to gradually shift taxation from consumption to production on an equitable basis since the mid-eighteenth century. One may cite the famous cadastre of the Duchy of Milan which took forty years to complete. In fact, many enlightened absolutists failed in their attempts to impose a direct tax on the net product of agriculture. After the end of the Napoleonic Wars especially the economically most successful nations of Western Europe increasingly relied on indirect taxes on articles of consumption. Under strong public pressure, the Vansittart administration in Great Britain saw itself forced to repeal the wartime income tax in 1816. Curiously, it was in some of those nations, in which the economy remained largely pre-industrial during much of the nineteenth century, where the income tax and other direct taxes played an important role relatively early, as, for example, in Italy (Ardant 1975: 208-223; Dowell 1965, II: 262-263). This was in a sense also Peru's situation in 1825: The economy was too weak, its structure too archaic for indirect taxes alone to produce the needed revenues. Because of this weak economic base men as Larrea y Loredó and Pando gladly employed the enlightened fiscal principles to assess new direct taxes, such as *castas*, *predios rústicos y urbanos*, *patentes* and *industrias*. But it was the same weak economic base which rendered these taxes relatively inefficient and brought forth strong opposition.

In order to minimize "double taxation", the tax laws from the very beginning established a system of mutual exemptions, whereby those who had to pay *contribución de patentes* did not need to pay *contribución de castas* and *de industrias* and according to which *contribución de predios urbanos* was only to be assessed in the towns in which *contribución de patentes* was levied.<sup>16</sup>

This latter tax, a proportional graduated levy on the net income from commerce, crafts and professions assessed through the various *gremios*, was only collected in Lima and five or six other cities. Lima alone produced nearly 80 percent of revenue from the *patentes* tax, amounting in total to between 60,000 and 80,000 pesos annually. The *contribuciones de castas* — a flat rate of first five and later three pesos on adult males — and *de industria* — four percent on net income from property and trades — primarily was levied upon the mestizo and white population in provincial and district level capitals, earning their living as hacienda owners, administrators and tenants, as lawyers or notaries, as muleteers or traders.

16 See the decree establishing the *contribución general* of Aug. 11, 1826, in Dancuart and Rodríguez (1902-26, I: 277-278).



This made it possible to identify specific taxes with more circumscribed social groups and allowed the caudillo politicians to ingratiate themselves with the one or the other group by abrogating the specific tax which applied to it. Between the late 1820s and 1845, this produced an "on-again/off-again" succession of decrees abrogating and reestablishing the *contribuciones de castas*, *industrias* and *patentes*. In 1829, General La Fuente, an Arequipeño with his political base in the Southern Sierra, abrogated the *contribuciones de castas* and *de industrias*; presumably these taxes deepened the economic crisis of the affected social groups and the taxes, due to resistance of the population, had hardly brought in any revenue (*Memoria de Hacienda, Perú* 1829a: 16; Rivera Serna 1959: 414-415). The same decree reestablished the *contribución de patentes*, abrogated by Congress in 1827.

In this connection, one should recall that it was during La Fuente's short-lived caretaker government, that import licences for flour and cotton cloth circumventing the *ley de prohibiciones* were granted for the first time against the loud protest of Lima's *junta departamental* and the city's national merchants. Together these measures suggest that La Fuente pursued a fiscal policy favoring the provincial mestizo and criollo groups and shifting the tax burden towards Lima's merchants, artisans and shopkeepers. Again in 1839 the Congress of Huancayo, under the influence of the same Gamarra, who had revoked La Fuente's tax decrees ten years earlier, abolished the *contribución de castas*, reasoning that this tax "ha recaído sobre personas miserables cuyos recursos apenas bastan para sostener las primeras necesidades de la vida sin aliviar las del Estado" (Dancuart and Rodríguez 1902-26, III: 53-54, 102). It was not reintroduced again during the following ten years.

For some contemporary observers like Castilla's Finance Minister, Manuel del Río, this heightened the injustice of the *contribución de indígenas*. For the Minister the failure to maintain a similar capitation tax on all other social and ethnic groups "destruye el principio de igualdad [...], porque hace pesar con mayor fuerza el impuesto sobre los indígenas, que son la clase mas menesterosa de la nación" (*Cuenta general* 1847: IV; *Memoria de Hacienda, Perú* 1847: 3). Del Río blamed the abolition of the *castas* tax for a 30 percent reduction in direct tax collections from 1845 to 1846. Since revenue from *castas* had always been minimal, this was primarily the consequence of the fact that now more Indians attempted to pass the color line for tax purposes.

In his *Memoria* for 1847 Del Río demonstrated the whole dilemma and the ambivalence which the Indian head tax produced in enlightened fis-

cal officers of the criollo state. On the one hand he announced the ardent desire of the government to reduce the *contribución de indígenas* "as soon as the urgent necessities of the treasury permit it." On the other hand he suggested that the law permitting Indians to sell their land to non-Indians should be changed merely on fiscal grounds, because it tended to diminish income from the *contribución de indígenas* as Indians without land paid a lower rate (*Memoria de Hacienda, Perú* 1847). As much as Peru's ruling elite found the Indian head tax inequitable and shocking to their liberal ideas, it remained indispensable for government finances.

While the *contribución de castas* undoubtedly faced the greatest resistance, that encountered by the other new direct taxes was only different in degree but not in kind. Those to be taxed refused or evaded assessment, thus hampering the drawing up of the tax lists.<sup>17</sup> It is clear that many of the lists remained incomplete and often weighted the net income of the different tax payers totally unproportionately, not only the result of concealment but also of inherent problems of income measurement in agrarian societies. Concerning the *contribución de predios rústicos*, for example, the four percent tax on the real or calculated rental income from agricultural land, well into the twentieth century large landholders were under-taxed. Owners of the smallest landholdings (mostly poor Indian peasants), producing a rent of less than fifty pesos annually, were exempted from this tax by law of 1840 and probably had not been matriculated before this date either (Dancuart and Rodríguez 1902-26, III: 102). Thus the tax weighed unproportionately heavily on the owners of small fincas and on the wealthiest peasant strata. To a lesser extent a similar distribution of the tax burden probably also characterized the *patentes, industrias* and *predios urbanos* taxes.

The weakest link in the fiscal administration was to be found on the provincial level, with those officials responsible for collecting the direct taxes. In fact it should be stressed that independent Peru's attempt to establish a program of direct taxes required putting into place a whole new layer of fiscal administration. With the one exception of *tributo*, the colonial treasury depended overwhelmingly on taxes which could be collected directly by the *cajas reales* and special fiscal institutions, such as the *alcabala* administration and the mints, in other words all central and regional offices staffed with full-time financial bureaucrats. The republic could not afford to create special treasury offices in each of the roughly

17 For reports on tax payers' resistance see *Memoria de Hacienda, Perú* (1827: 24-27); Rivera Serna (1959: 414-415); Kubler (1952: 7, n. 22).

sixty provinces. And so the government adopted the same method of collecting all direct taxes, which the viceroyalty had used for tribute collection: Entrusting the chief executive officer of the province, the *subprefecto*, with the responsibility for tax collection against payment of a commission. However, it was one thing for a colonial creole *subdelegado* with the aid of *curacas* to enforce the payment of *tributo* by Indian peasants, and quite another for a creole or mestizo *subprefecto* during the early republican period to collect taxes from landholders, traders, professionals and artisans hailing from the same or a more elevated socio-ethnic status as he himself. The *subprefecto* lacked the power to enforce the tax laws against these groups and often, for politico-clientelistic reasons, he did not want to enforce them. This was, to be sure, largely the consequence of the lack of autonomy of the government machinery from the volatile caudillo politics, as Manuel del Río pointed out in 1847: "La sucesión de revoluciones que ha colocado en el mando de las provincias a jefes sin garantías y al antojo del mandatario que solo atendía a conservarse en el puesto, sin exigir de sus prosélitos mas que adhesión personal, ha producido la dislocación que se advierte en el sistema rentístico por consecuencia del olvido de las leyes."<sup>18</sup>

Nevertheless, one should not forget that, from the point of view of "state building," this ineffectiveness in the collection of direct taxes cannot be seen as falling back behind the level of organizational infrastructure already achieved by the colonial regime. Rather, as pointed out above, it was the first attempt at broadening the fiscal control over society. George Kubler encountered in the Archivo Histórico of the Ministerio de Hacienda 164 *matrículas* on all direct taxes (including *indígenas*) for the period 1825-1854 and probably half again as many more are destroyed or lost in private or regional archives.<sup>19</sup> Whatever their imperfections as cadastres of real property and net rents, they represented a significant first step. Malcolm Deas has pointed out in a recent article, that any serious attempt at levying direct taxes in Colombia only began during the

18 *Memoria de Hacienda, Perú* (1847: 6); for another example of the pervasive dissatisfaction with the subprefects' fiscal administration, see also *Memoria de Hacienda, Perú* (1831: 6-13).

19 Kubler (1952: 1); I have located two further *matrículas de predios rústicos* between the 1820s and 1850s for a single province (Azángaro).

20 Deas (1982: 300-302); I am grateful to Reinhard Liehr for pointing out this article to me. Marcello Carmagnani reports that the Mexican central and state governments also failed in extending fiscal administration to the provincial level (Carmagnani 1983: 291).

1850s, thirty years later than in Peru.<sup>20</sup> The difference probably lay in the stronger statist and centralist tradition in Peru since colonial times. Just as the capitation tax for non-Indians was making its demise from the Peruvian scene during the mid-1840s, some of the other direct taxes, particularly the *contribución de predios rústicos*, were showing signs of becoming more accepted, as revenues from these sources increased. The receipts from the tax on rental income from urban and rural real estate property had grown from 41,000 pesos in 1830 to between 125,000 and 147,000 pesos during the late 1840s (Dancuart and Rodríguez 1902-26, II: 53 and IV: 53; *Cuenta General* 1847). During the first presidency of Castilla total income from direct taxes other than the Indian head tax contributed between four and six percent of gross revenues. Including the *contribución de indígenas* direct taxes accounted for between 22.5 and 32 percent of gross revenue between 1826 and the late 1840s<sup>21</sup>.

Besides the major sources of income which we have looked at so far, the government continued to draw revenues from a great variety of taxes, fees and rents, nearly all of which were of colonial origin. Among these were to be found the stamp tax, postal charges, the government's share of tithes, monopoly rights on the sale of tobacco and nitrate, fees on vacant civil and ecclesiastic positions, the rent or sale of national property and of the extinguished colonial corporations, such as inquisition, *temporalidades* (Jesuit property) and the *caja de censos* (Indian community fund). Most of these charges lingered on throughout the period under consideration, although many were either inefficient as sources of income — with the costs of collection high and the receipts low — or were odious to the creole political elite (Dancuart and Rodríguez 1902-26, II: 50-51; Ugarte 1977: 104). More than with the policies towards the major revenue sources, their endurance was a consequence of fiscal convenience, as their collection raised little opposition from the tax payers. In spite of attempts to reduce the rate of tithes since 1832 and its denunciation by Manuel del Río as obstructive to agriculture, collection continued nearly at the same level as during the late colonial period until the mid-1840s, when they began to wither away before being finally abolished in the mid-1850s.<sup>22</sup>

The almost total disappearance of revenues from the production and sale

21 Tantaleán Arbulú (1983: 54) suggests that the *contribución de indígenas* alone accounted for 31 and 34 percent of current government revenue between 1826 and 1830.

22 *Memoria de Hacienda, Perú* (1847: 8-9); on *diezmo* legislation see Dancuart and Rodríguez (1902-26, II 51-53, 117, 189-190, 220, and III: 54, 91-92).

of tobacco, a *ramo* which during the last years of the royal monopoly had become a major source for the viceregal treasury, is shrouded in confusion and needs further study. During the years of the Wars of Independence only the sale of tobacco in the cities had remained a government prerogative. But in 1826, the monopoly was reestablished, and this "bajo una forma mas aborrecible e inmoral que la del estanco real," as the unflinching liberal Santiago Távora tells us (Távora y Andrade 1951: 72).

In the following years, the monopoly was apparently farmed out, for the small amount of 20,000 pesos annually. But contraband imports were massive since they were cheaper than the domestic tobaccos. The producers in Chachapoyas could only secure the marketing of their expensive product through a law which granted them the payment of taxes in tobacco. In spite of an unclear legal situation, the monopoly disappeared during the 1830s and the only tax remaining on domestic tobaccos was a special sales tax, applied to the debt amortization fund of the *caja de arbitrios*. The basic problem, because of which revenues from domestic tobaccos evaporated before the treasury's eyes, seems to have been that due to various factors, Peru's tobacco production could not compete with Cuban and U.S. imports and would have required heavy protection, which many creole politicians were not willing to grant due to the unpleasant experiences with the royal monopoly.<sup>23</sup>

Taken together, all these minor taxes, charges and other types of government income probably fluctuated more sharply from year to year than the major sources of revenue did between the 1820s and 1850, simply because some items, such as income from the sale of national property, was only collected sporadically. Both because of such sales, which were particularly frequent during the 1820s and the Orbegoso and Santa Cruz administrations, and of the greater importance of income from the sale of domestic tobacco, I suspect that the share of the minor *ramos* gradually declined from the 1820s to the 1840s. In 1846, they still produced about 250,000 pesos, or about four percent of gross revenues.

The 1840s witnessed the rise of Peruvian guano sales. But their importance for the Peruvian treasury was somewhat delayed, as the government only slowly realized the income earning potential of the fertilizer, and the discovery of an alternate source before the coast of Africa depressed demand during the mid-1840s. Only since 1847 did advances

23 Távora y Andrade (1951: 111); *Memoria de Hacienda, Perú* (1822: 20-21); Rivera Serna (1959: 415); *Memoria de Hacienda, Perú* (1831: 24-25); Anonymus [Santiago Távora y Andrade] (1831: 53-58).

from guano consignments begin to contribute significant funds to the treasury with some regularity. Yet until the early 1850s, the share of guano income remained smaller than that of customs duties and direct taxes.<sup>24</sup> As in many other aspects of the country's fiscal structure, Castilla's first presidency was, also in this regard, a period of transition.

#### IV. FISCAL DEFICITS

It was very commonplace during the early decades after independence for ordinary income to fall short of expenditures. This was of course the consequence of the utter absense of control by the Ministry of Finance over how most of the revenue was spent: The Peruvian Congress, among whose members only a handful had an inkling of understanding and/or interest in concrete fiscal questions, essentially abrogated its responsibility as controller of the public purse string, by never deliberating about any budget proposal prior to 1847, twenty-six years after independence (Basadre 1968-70, II: 44). Because other ministries failed to supply the Finance Minister with precise data on their required funds, the sporadic earlier attempts to draw up budgets anyhow, for example by Pando in 1831, were necessarily highly unrealistic (*Memoria de Hacienda, Perú* 1827: 48-51). But the major problem was that much of the public revenue was spent decentrally, without any regard to possible budgetary limitations. The departmental administrations spent funds collected in the *tesorerías departamentales* regionally as they deemed necessary. An even graver problem of fiscal control was of course posed by military units stationed in the provinces which laid their hands on as many public funds as they could (Rivera Serna 1959: 403, 424-426; Távora y Andrade 1951: 55). In effect, the *tesorería general* in Lima only controlled part of the public revenues. Since the need for funds was greatest in the capital, central treasury carried the brunt of the deficit (*Memoria de Hacienda, Perú* 1828: 19-20). Given this often recurring situation, and the enlightened principle avowed by more than one Minister of Finance, that the budget should be balanced, one has to be struck by the extreme reticence of early republican governments to increase taxation.

After the enactment of the package of direct taxes during Bolívar's reign, which, as we have seen, in good part was meant to replace abolished or

<sup>24</sup> Ugarte (1977: 112-114); Macera (1974: LV, cuadro 12); the table contains almost certainly miscalculations for the late 1840s.

reduced taxes from other *ramos*, the major trend soon pointed towards reduction of taxes. While a few more sources of income were put on the books by governments during the 1830s and 1840s — such as the *impuesto a los licores* — more were abrogated or their rates lowered. Again and again, the Finance Ministers exclaimed in critical financial situations that somehow rather the urgent fiscal needs had to be met without further burdening the taxpayers. Thus, after describing the critical shortages of the national treasury, José María de Pando wrote in 1831: “¿Que medios adoptar para hacer que se minore sucesivamente este deficit? Aumentar las contribuciones directas es cosa absolutamente imposible; la miseria de los pueblos es extrema, y con suma dificultad se pagan las existentes: el producto de las indirectas sería susceptible de acrecentamiento; pero este efecto necesariamente habría de ser lento y progresivo” (*Memoria de Hacienda, Perú* 1831: 28).

Three factors contributed to most governments' decision to seek funds for overcoming deficits by means other than through raising taxes: 1) Usually the government needed extrafunds in the short term, because — due to deficient accounting — the lack of income to disfray all necessary expenditures was discovered only immediately before it occurred: Raising new taxes would take too long to help. 2) New taxes were dangerous politically in a period, in which all social groups with a voice in public affairs were complaining about their impoverishment. 3) Undoubtedly, the creole political elite was influenced by the growing tendency in the major West-European countries, especially England, to lower the tax burden of the population between the 1820s and 1840.

After Peru's public credit had collapsed as early as 1825, when the servicing of the two loans contracted in London in 1823 and 1825 was not continued, the country had no access to the international capital markets until 1847, when it became possible again to contract loans in England secured by guano (Mathew 1970b). During the intervening twenty-two years extraordinary funds to plug up deficits in the budget had to be raised in Peru itself. The governments essentially employed three methods to reach this goal: Outright loans, voluntary or otherwise; advances on future revenues; temporary reduction or non-payment of civil and military salaries.

In contrast to the foreign debt, which, while never renounced, was essentially neglected for close to twenty years, all these types of internal debts engendered a reduction of revenues and increased expenditures in the short and medium term. While the Peruvian government managed to hold the foreign creditors at bay by claiming absolute indigence, it could

never do the same with the holders of the internal debt for long. Without at least partial repayment of creditors in Peru, the last source of credit would have dried up, and the political base of the republic would have been eroded, as the governments owed to too many merchants, miners, landholders, bureaucrats, military officers, and professionals, all those groups who could exert political influence.

Foreign and Peruvian merchants, who were the major contributors of loans to the government, might complain about the insecure business conditions created by repeated erogations. But usually they were in a good position to impose favorable terms, when the treasury wanted to borrow money. As security for the repayment of the loans, the government was willing to admit debt certificates as part payment of certain taxes and charges, among them customs duties. During the late 1820s, when debt certificates were traded at a discount of up to 75 percent, merchants could even make speculative profits by buying such *billetes* and using them at face value to pay in part the import duties on their merchandise.<sup>25</sup> It should also be mentioned in passing that the government's practice of accepting depreciated instruments of the public debt at their nominal value in lieu of customs payment, effectively lowered the tariff rates.

Obviously the practice of asking for advances on tax payments or other ordinary charges had an adverse effect on future short-term revenue collection. This practice, which finally led to the huge disastrous advances on future consignments of guano during the 1850s and 1860s, began no later than 1828, when during the war with Gran Colombia the Finance Minister Gaspar de Rosas proposed to fill an urgent requirement of one million pesos by advance payment of all direct taxes by half a year. Rosas expressed his conviction that the citizens would understand this measure, as it was aimed at avoiding new extraordinary taxes (*Memoria de Hacienda, Perú* 1828: 19-20). By 1845, this fiscal practice had become so widespread that the Aduana de Callao, instead of being creditor, owed 412,505 pesos and the Casa de Moneda 293,000 pesos. In the words of Emilio Dancuart, "cada renta fiscal ofrecía al Gobierno no solo una suma de dinero que consumir sino un recurso más para pedir adelantos á los que debían pagarla en lo futuro" (Dancuart and Rodríguez 1902-26, III: 49).

25 See Camprubí Alcázar (1960: 108-109); for an analysis of the, relatively late, rise of state dependence on mercantile credits in Rosa's Buenos Aires of the early 1840s see Halperin Donghi (1982: 219).



The reduction or non-payment of salaries both to the bureaucracy and to the army officers at times must have been practiced for fairly long periods of time and one wonders to which degree discontentment over lack of payment among military and civilian personnel might have been responsible for the instability of the one or the other regime. Even though the government had been repaying not inconsiderable amounts of debts on past salaries and pensions and some of the outstanding debt may have been transformed into general certificates of the national debt, by December 1846 the public debt on civil and military salaries and pensions still amounted to over 2,000,000 pesos (*Cuenta general* 1847: unnumbered table). The government realized the dangers inherent in this debt and the largest loan on guano before 1850, a loan from 1848 amounting to 850,000 pesos, was contracted and earmarked (although not spent) exclusively for the purpose of repaying past salaries (*Memoria de Hacienda, Perú* 1949: 13-15).

Given the obviously debilitating effects of this type of deficit spending for the state and the economy of a country, which had not much of any credit infrastructure, it remains hard to understand why it was followed. To be sure, in many ways it was simply the continuation of a fiscal demeanor of the colonial regime, which in Peru had borrowed at a disastrous rate during its final decade, not to speak of the long tradition of deficit spending of Spain at least since Philip II.

It is significant that a keen contemporary practitioner of financial politics as Manuel del Río, felt that the weight of Spanish tradition was greater in public finances than in most other areas of society (*Memoria de Hacienda, Perú* 1849: 6). While he, however, only meant to point out all the negative, debilitating effects of the Spanish heritage, it is clear that the young Peruvian republic also benefitted from a fairly strong colonial fiscal infrastructure. Both early republican Peru's continued capacity to collect revenue at about the same level as the late colonial regime and its adoption of deficit spending, as well as a chaotic system of public accounting owed much to the "Spanish tyranny," as the republican creoles liked to call their colonial past.

But deficit spending also reflected the social basis of politics in early republican Peru: Spending could not be controlled, because the machinery of state had lost its autonomy and became dependent on contending politico-military factions through whom powerful social interest groups could exercise a rather immediate influence on economic and fiscal policies. In this political atmosphere, it proved impossible to levy new direct taxes — or make those established in 1824-26 more efficient —, because

this would inevitably have fallen onto those classes on which, in varying coalitions, the regime depended for political support, namely various groups of merchants, large landholders and artisans in the major cities. After the late 1820s, neither could the rate of indirect taxes be raised, both because the growing political strength of importers and wholesalers, but also since protectionism seemed out of tune with the ideas of the time in Europe, an element not to be underestimated for the decision making process of the creole political elite.

Thus, under the given social and political circumstances, there really seemed to exist no alternative to raising the needed additional revenues through loans and other forms of credit. It seemed acceptable, because it hurt the politically powerful groups, particularly merchants, relatively little, since they used the payment of loans to the government as a tool to extract other advantages. At the same time it concealed the financial burden which it placed on other social groups better than the levy of new taxes could.

## V. THE SOCIAL INCIDENCE OF GROSS REVENUE

We have now arrived at a place where we can profitably raise the question as to how the burden of taxes, loans and other charges collected by the Peruvian state between the 1820s and 1840s, was distributed socially. The conventional answer has been that it favored particularly the creole hacendados and fell particularly heavily on the Indian peasantry.<sup>26</sup> The problem with this view, which certainly has some merits, is that it is based only on a consideration of direct taxation.

At the outset, it should be stressed that to a certain degree taxation in early republican Peru maintained a typical feature of ancien régime fiscal structures: It remained quite particularistic and did not yet achieve a high degree of universality. That is to say, due to special tax exemptions, regionally differentiated problems of collection, as well as a great many municipal and local taxes members of the same class were not necessarily taxed at the same rate throughout the whole nation.

<sup>26</sup> See, for example, Yepes del Castillo (1972: 42); Tantaleán Arbulú (1983: 56) views the tax policy of Peru's "Estado Caudillista" as reproducing the "división estamental socio-étnica colonial de criollos e indígenas;" this view underestimates the reformist efforts of early republican fiscal concepts, which, as I hope to have shown, clearly sought to move towards a new vision of society, whatever its success.

Leaving this problem aside, any analysis of the social incidence of the tax burden needs to consider *all* sources of state revenue: direct taxes as well as indirect taxes, but also the credits with which the deficits were financed.

With this in mind, it is plain that Peru's early republican taxation was highly regressive. Three-fourths of the direct taxes were levied upon the large mass of rural poor, the Indian peasants. The remaining direct taxes hit small shopkeepers, traders, artisans and intermediate landholders relatively harder than large landholders, importers and wholesalers. The largest chunk of revenues, import duties, primarily burdened the poorer strata of the larger cities. These strata consumed most of the imported cheap textiles and food stuffs, which constituted the lion's share of gross imports. Duties on luxury imports paid by the wealthy groups both in the cities and in the countryside would appear to have been of secondary importance.

As to domestic credits to finance the budget deficits, it seems obvious that the urban middle and lower classes bore the main brunt. Merchants, but also large landholders often had possibilities to get something in return for their loans to the government, and found ways to redeem the debt certificates they held at face value. Not so the hundreds of middle and lower level bureaucrats who lost millions of pesos in salaries, or the small urban shopkeepers, many artisans and their employees, who contributed to forced loans. Mostly they deemed themselves fortunate if they could redeem the *billetes* they held or the paper money issued in 1822 and 1823 at the much depreciated market rate.

It would seem then that besides the generally regressive structure of Peru's early republican taxation, through which both urban and rural lower classes contributed relatively more than importers, wholesalers and large landholders there is a second and may be more significant, because novel bias to the social incidence of taxation between the 1820s and 1840s: a shift of the tax burden from the rural provinces to the major urban centers. After all, it was not only larger landholders who fared quite well in the countryside. We have seen that the taxation of miners was considerably reduced. The near total abolition of *alcabala* favored primarily *arrieros*, traders and shopkeepers in the interior provinces. Last not least, while Indian peasants still carried a heavy burden with the *contribución de indígenas*, the per capita weight of this tax became lighter, both because the republican governments maintained the same rate as the colonial regime in spite of inflation and because collection failed to keep up with population growth.

The major losers of the early republican tax reshuffle would seem to have been the lower and middle strata of the handful of important centers, primarily Lima, but probably also Arequipa, Trujillo, Cuzco and Huamanga. They paid most of the import duties, a good share of the new direct taxes (primarily *patentes* and *predios urbanos*) and were the major victims of the practice of deficit spending. It is true that the cities, particularly Lima, also were major beneficiaries of public expenditures, in the form of bureaucratic employment, as Santiago Távora pointed out. But compared to the later colonial era, most lower and middle echelon bureaucrats clearly were living badly now. It seems more than coincidental that Lima's population declined from the early 1820s at least until the early 1840s. In Arequipa a keen observer as Mateo Paz Soldán could think as late as the mid-1850s that the town was declining, although in fact it was in the midst of being transformed into the entrepot for all Southern Peru's trade. Similar developments also characterized towns as Huamanga and Cuzco. To be sure, factors related to regional and local economies may have played a major role in the decay of many of Peru's cities during the early republican period. But the government's fiscal policy clearly did not favor urban lower and middle strata.

## VI. CONCLUDING REMARKS

To conclude, I would like to list the major findings presented in this paper. I should stress that much of what I said bears a tentative character and could only be verified through a major effort at quantification, which cannot be carried out on the basis of published materials.

1. Gross revenues of early republican Peru, after a quick recovery from the Wars of Independence, did not decline appreciably compared with the level of the late colonial period.
2. The decline of per capita revenues, particularly if measured in constant terms, must be viewed as an expression of the weak economic base.
3. The efficiency of tax collection was not significantly lower than during the late colonial period, at least as it concerns the old established *ramos*.
4. Although hesitatingly and with many reversals, the tax policy of the early republican governments pursued political-economical goals in spite of fiscal exigencies.
5. These goals were directed at an economic recovery of the primary producing sectors as well as a stimulation of both domestic and external trade.
6. The archaic structure of society as well as the political power of large landholders and other creole groups blocked the success of the direct tax program. Nevertheless, it

was an important beginning, slowly gaining acceptance for taxes on net rent, on which governments after the end of the guano boom could build. 7. Deficit spending became inevitable because after the late 1820s neither direct nor indirect taxes could be raised. It was the consequence of overspending due to lack of budgetary control, fiscal decentralization and direct impact of caudillo politics on government finances. 8. The social distribution of taxes was not only regressive, but it was characterized by a bias against the urban lower and middle strata.

I would like to close with an assessment by General William Miller, made as early as 1829, which coincides with the major point raised in this paper: "The essential vice which may be imputed to the new governments, is not having been able to resist the convenience of borrowing money; when instead of increasing their debts, they should have repaid those contracted earlier. Regarding Peru, Chile and Buenos Aires, we can affirm with all confidence that if their revenues had been administered as they should, they would have been more than sufficient to cover all requirements."<sup>27</sup>

27 Retranslated from Miller (1975, II: 185).